

MEMO

DATE: February 3, 2005

TO: Community, Economic and Human Development Committee

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SUBJECT: State Budget and Housing Policy Update

SUMMARY:

On Monday January 10th Governor Schwarzenegger introduced a proposed 2005-06 State Budget. The \$109 billion state spending plan is a 4.4% increase from the current fiscal year. In 2005-06, General Fund revenues and transfers are projected to increase from \$78.2 billion to \$83.8 billion while expenditures are proposed to grow by 4.2 percent-from \$82.3 billion to \$85.7 billion. The budget proposes to cover the \$1.9 billion gap between revenues and expenditures with \$1.7 billion in proceeds from a new deficit-financing bond sale.

BACKGROUND:

Under the purview of the CEHD Committee, the proposed budget has several implications for local government finance and housing needs and planning. First, consistent with Proposition 1A passed by voters in November 2004, local governments will contribute \$1.3 billion in property tax shifts. The budget also proposes to reduce grants to counties for property tax administration by \$5.7 million.

The Governor proposes a suspension of most mandates in 2005-06, for a savings of \$250 million. The Regional Housing Needs Assessment (RHNA) mandate is unfunded in the budget proposal and the Governor has indicated plans to seek reform to "onerous regulatory and planning laws" to promote home building and accountability for housing production while requiring less paperwork for local governments. The proposal stipulates that each local government "should plan for and be prepared to accommodate their own natural population increase and workforce".

Another important local government financing issue in the budget is the proposed suspension of a transfer of \$1.31 billion in gasoline sales tax revenue from the General Fund to transportation under Proposition 42. The Governor proposes to repay the suspended amount over 15 years, but to amend the proposition to prohibit future Proposition 42 suspension after 2006-07. Proposition 42 was approved by voters in 2002 and requires revenue from the sales tax on gasoline that previously went to the General Fund to be transferred into the Transportation Investment Fund for transportation purposes.

The Governor also proposes to introduce legislation to make repayment of \$1.4 billion in transportation loans, which are due June 30, 2005, explicitly contingent upon receipt of tribal gaming revenues. The 2004-05 Budget assumed that the loans would be repaid through \$1.2 billion in bond proceeds from certain dedicated Indian gaming revenues. However due to litigation the bond sales are on hold.

TRGDoc#106784
State Budget CEHD